

## MEMORANDUM

TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

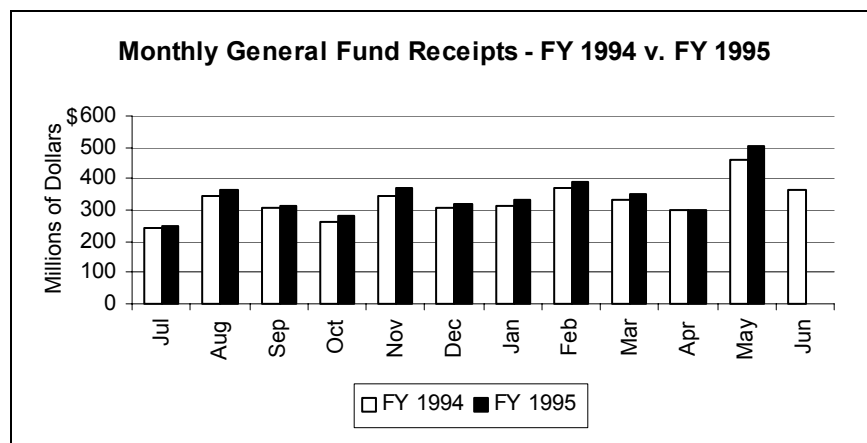
FROM: Dennis C. Prouty

DATE: June 2, 1995

### General Fund Receipts Through May 31, 1995

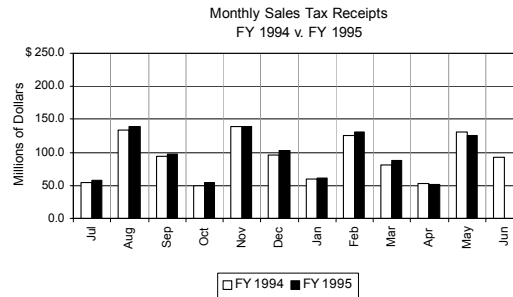
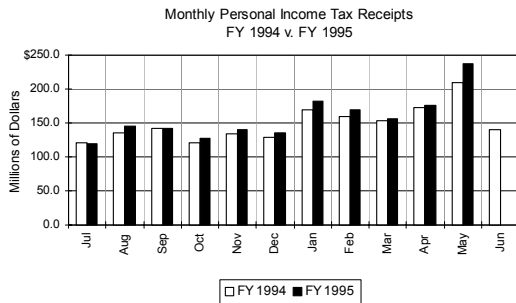
The attached spreadsheet represents General Fund receipts through May 31, 1995, with comparable figures for FY 1994. These can also be compared to the latest FY 1995 estimate (\$4.119 billion) that was set by the Revenue Estimating Conference (REC) on April 7, 1995. The REC estimate was increased from the December estimate by \$28.1 million (0.7%) to reflect strong year-to-date growth through the first nine months of FY 1995.

The December estimate for FY 1996 was increased \$8.5 million (0.2%) to \$4.259 billion at the April meeting, and refunds were adjusted downward. Receipts net of refunds increased by \$25.5 million (0.7%) over the December estimate. This estimate reflects an anticipated adjustment in the withholding tables by the Department of Revenue and Finance.



Total year-to-date General Fund receipts for FY 1995 increased 6.0% over FY 1994. Special taxes showed an increase of 5.5% during this same time period. Personal income tax receipts increased

5.3%. Sales tax receipts were 3.1% higher than the previous fiscal year. Use tax has increased 11.9% over FY 1994, and corporate income tax receipts showed a 22.6% increase. Total General Fund receipts for the month of May were 11.0% higher than May 1994.



Personal income tax receipts for the month of May were 13.0% higher than May 1994. The Department of Revenue and Finance (DRF) issued an analysis of returns and concluded that FY 1995 receipts from the personal income tax will likely exceed expectations. Pay returns for the return processing period that ended in May were approximately 18.1% higher than the same period a year ago. Recent reports suggest that the federal pay returns are experiencing the same trend. Estimate payments are relatively flat, largely due to the federal income tax increase for tax year 1993. Somewhat more surprising is the fact that receipts from withholding grew 9.3% over May 1994.

The strong growth in personal income tax receipts has been offset by a decline in sales tax receipts. There was a 12.2% decline during the two-month processing period for quarterly sales tax receipts. Monthly receipts in May were \$1.3 million higher (1.5%) than May 1994. Total sales tax receipts (monthly and quarterly) in May were down 3.9% compared with May 1994. The DRF has indicated that total FY 1995 receipts could be as much as \$15.0 million less than anticipated by the REC in April, but that combined sales tax and personal income tax receipts will be \$10.0 million more than expected.

The rate of growth in corporate income tax receipts increased in May due to strong growth in pay returns. Receipts for May 1995, compared with May 1994, were 52.7% higher. The REC increased the corporate income tax estimate 6.3% to \$253.2 million. To simply reach the REC estimate, corporate income tax receipts in June could be as much as 28.5% lower than June 1994.

Year-to-date franchise tax receipts are 13.6% lower than one year ago, and receipts for the month of May are 46.2% lower than May 1994. Franchise tax receipts over the last quarter are \$4.5 million less than the same period a year ago. Although the REC revised the franchise tax estimate downward \$1.5 million, largely due to increasing usage of investment subsidiaries, it appears that the effect of the tax avoidance measures have exceeded REC expectations. On May 26 the Governor signed SF 478, which is an attempt to curtail the use of investment subsidiaries. The Bill is not expected to have any effect on FY 1995 receipts, but could increase receipts more than \$8.0 million in FY 1996.

### Receipts Compared to REC Estimate

The April REC estimate of 4.8% was exceeded by 1.2 percentage points through the first 11 months of FY 1995. The tax sources most responsible for the growth are corporate and personal income tax. Combined, these taxes are 7.0% higher than a comparable period in FY 1994. The combined REC projection for these two taxes is 5.2%. Corporate and personal income tax receipts represent 60.8% of the year-to-date increase over FY 1994. The two sources made up approximately 51.0% of FY 1994 year-end receipts.

The April REC estimate for FY 1995 General Fund receipts is \$4.119 billion. This represents an increase of \$187.1 million (4.8%) over actual FY 1994. If receipts continue to grow at the same rate as the first 11 months of FY 1995, the April estimate would be exceeded by \$48.8 million.

These estimates should also be viewed in the context of the tax sources driving the increase; specifically, corporate and personal income tax. Although corporate income tax historically represents only 5.0% to 6.0% of annual General Fund revenues, the tax is a significant source of errors in overall revenue forecasts. As indicated earlier, however, most returns have been processed for both tax sources. Thus, the DRF is confident that the REC estimates for corporate income tax and personal income tax will be substantially surpassed.

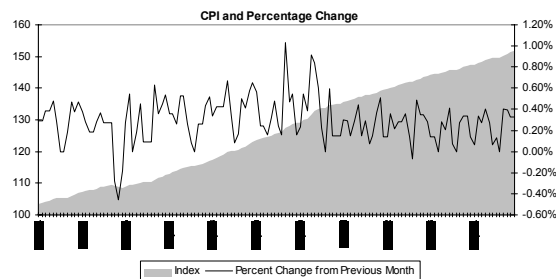
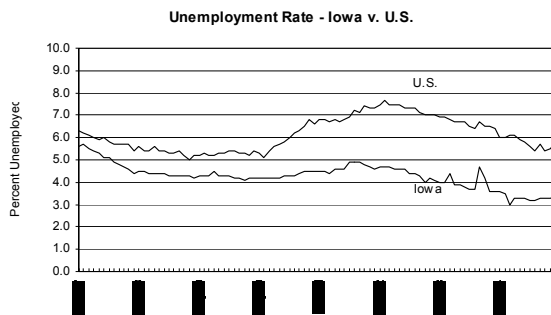
### Obligations

School aid payments are to be paid in monthly installments, subject to the cash position of the State. The May payment for FY 1995 has been made, and all payments are scheduled to be completed by June 1995 (10.0% per month).

### Status of the Economy

The seasonally adjusted percent unemployed for the State increased one tenth of a percentage point to 3.4% in April. The U.S. unemployment rate increased three-tenths of a percentage point to 5.8% due to a net decrease in national employment of approximately 9,000 people. Nearly all of the employment losses took place in large states. The average 1994 unemployment rate for Iowa and the nation was 3.6% and 6.1%, respectively.

Consumer prices in April increased 0.3 % due to increases in the price of medical care and transportation costs. The Consumer Price Index (CPI) through April 1995 was 151.9 (1983=100), which is 3.1% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through February 1995.



We will be mailing special tax and economic performance reports on a monthly basis. Feel free to contact us for additional information or if you feel the report needs clarification.

GENERAL FUND RECEIPTS - PREVIOUS COMPARED TO CURRENT PERIOD					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1994, through May 31, 1995, in thousands of dollars					FY 94 Actual Compared to FY 95 REC Estimate			
	FY 1994	FY 1995	Year to Date % CHANGE	May % CHANGE	Actual FY 1994	Estimate FY 1995	% CHANGE	
Personal Income Tax	\$ 1,645,039.8	\$ 1,731,944.8	5.3%	13.0%	\$ 1,784.9	\$ 1,855.9	4.0%	
Sales Tax	1,016,960.2	1,048,106.2	3.1%	-3.9%	1,110.1	1,158.5	4.4%	
Use Tax	165,959.5	185,643.5	11.9%	18.6%	175.1	193.8	10.7%	
Corporate Income Tax	186,603.7	228,760.9	22.6%	52.7%	220.8	253.2	14.7%	
Inheritance Tax	79,880.4	81,727.5	2.3%	-3.4%	88.1	92.2	4.6%	
Insurance Premium Tax	72,346.6	73,500.6	1.6%	23.5%	103.3	98.7	-4.5%	
Cigarette Tax	81,936.0	83,394.9	1.8%	4.8%	91.6	93.6	2.2%	
Tobacco Tax	4,173.9	4,568.5	9.5%	8.1%	4.6	5.0	8.8%	
Beer Tax	11,299.1	11,256.5	-0.4%	-12.5%	12.5	12.6	1.0%	
Franchise Tax	29,831.3	25,766.9	-13.6%	-46.2%	34.1	31.4	-7.8%	
Miscellaneous Tax	1,496.4	2,295.0	53.4%	-234.2%	1.1	0.9	-20.4%	
Total Special Taxes	\$ 3,295,526.9	\$ 3,476,965.4	5.5%	10.2%	\$ 3,626.2	\$ 3,795.8	4.7%	
Institutional Payments	95,432.4	98,699.9	3.4%	14.3%	105.5	106.8	1.2%	
Liquor Transfers:								
Profits	22,500.0	23,000.0	2.2%	0.0%	25.5	25.4	-0.4%	
7% Gross Revenue	8,250.0	8,250.0	0.0%	0.0%	9.0	9.0	0.0%	
Interest	6,404.5	13,504.1	110.9%	144.0%	7.9	17.0	114.9%	
Fees	48,091.5	50,500.6	5.0%	19.2%	55.6	55.3	-0.6%	
Judicial Revenue	39,834.7	43,601.5	9.5%	9.3%	43.6	48.1	10.2%	
Miscellaneous Receipts	40,244.0	38,583.2	-4.1%	9.2%	47.9	40.0	-16.5%	
Racing and Gaming Receipt	8,427.3	23,734.7	181.6%	269.8%	10.2	21.2	107.7%	
TOTAL RECEIPTS	\$ 3,564,711.3	\$ 3,776,839.4	6.0%	11.0%	\$ 3,931.5	\$ 4,118.6	4.8%	